

PROGRAM FOR POVERTY ALLEVIATION AND COMMUNITY DEVELOPMENT

(PN-0111)

EXECUTIVE SUMMARY

Borrower	Republic of Panama	
Executing agency:	Emergency Social Fund (ESF)	
Amount and source:	IDB:	US\$48.85 million (OC)
	Local:	<u>US\$17.5 million</u>
	Total:	US\$66.35 million
Financial terms and conditions:	Amortization period:	30 years
	Grace period:	4.5 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar (Single Currency Facility)
Objectives:	<p>The general aim of the program is to maximize the positive impact of investments to improve conditions among poor communities in Panama and encourage them to participate in their own development. The specific aims are to: (i) introduce a transparent resource allocation process, based on poverty criteria; (ii) develop a community planning methodology for resources to be used in accordance with community priorities; (iii) broaden the menu of activities eligible for funding in order to reflect communities' concerns and interests; and (iv) decentralize the ESF line process to bring it more into step with local realities.</p>	
Description:	<p>The program has two components: (i) local investments and (ii) community development. The first component will distribute social investment funds according to a transparent formula based on the percentage of people living in poverty in each municipio. The investment menu will have two main categories: (a) basic social infrastructure projects, and (b) essential social services, both determined through a process of community prioritization.</p> <p>The second component aims to develop capacity locally as that investments respond to local priorities. To achieve this, two lines of</p>	

action will be pursued. Firstly, community promotion and planning activities will draw up annual investment plans, giving details of agreements among local stakeholders on the investment priorities for the locality concerned. Secondly, the program will encourage decentralization of the ESF production line to the provinces, in order to better serve communities in the execution of projects.

Relationship of project in Bank's country and sector strategy:

The Bank's operational guidelines for decentralization and municipal development in Region 2 countries define three nuclei of intervention and specify strategic actions for each: (i) cities of over 200,000 inhabitants, (ii) emerging urban centers of at least 20,000 inhabitants, and (iii) the multitude of small, predominantly rural municipios, which act as the link between the rural economy and local consumer markets.* As most of Panama's poor fall to the third category, community development is an essential element for fighting poverty? even more so when poverty is concentrated geographically in rural areas where the local government presence is virtually nil. Community development enables viable investments to be made and contributes to overcoming extreme poverty, insofar as the communities themselves assume comprehensive ownership of their projects.

Environmental and social review:

Paragraphs 4.9 and 4.11 give detailed results of the environmental quality assessment and improvements made on the basis of its recommendations, together with details of the environmental quality measures that new projects will be subject to. The project's social and ethnic impact focuses on increased participation by beneficiary communities in defining their priority problems and possible solutions. To that end, the participatory planning guidelines will ensure the broadest possible participation by beneficiary communities, including neglected minorities. In indigenous communities, participatory processes will be designed to take account of the particular interactions of each specific ethnic group (see paragraphs 2.1, 2.11 to 2.18, and 3.5 to 3.12).

Benefits:

The program aims to fight poverty and address the welfare disparities that exist in Panama. The ESF gives priority to social infrastructure investments that attend to the basic needs of poor people and target social programs to help vulnerable groups. The program's social impact is expected to be highly effective, since (i) it will target investments to the poorest communities in Panama, identified through a poverty map; and (ii) it will develop local capacities for communities to assume ownership of decision-making processes that affect them, and so improve the relevance of the projects funded.

* Subnational Finance and Development: A Draft Operational Strategy for Region 2. IDB, 1998.

The implementation of a **new targeting scheme** to pre-allocate funds according to the incidence of poverty will ensure that the program has a high redistributive impact. The allocation of funds to municipios on the basis of their share of the population living in poverty will guarantee higher per capita investments in municipios with a higher percentage of poor people. For example, average per capita investment in the poorest group of districts will be over four times the investment level in districts with a lower incidence of poverty.

Risks:

Community planning will require an institutional transition from a promotion methodology with a pre-established menu to a more flexible operating framework. Greater community participation in the identification of projects and resource planning, together with the introduction of new and innovative alternatives, is likely to delay project development at the start of the program. To mitigate this risk, the program will introduce the new scheme gradually in the first year of execution, to ensure the institution does not lose momentum and to avoid sacrificing genuine participation for the sake of accelerating processes. Activities to be carried out under this framework are well defined and will be detailed in the program's operations manual.

There is a risk that **those living in extreme poverty** will not benefit from the program as expected, because in general they have less capacity to draft project proposals and have a weaker voice in the community. The technical assistance provided to communities by the ESF, and the proactive role of promoters, will be very important in ensuring that these communities share adequately in the benefits of the program. The program will be open to communities whose average income is below the poverty line.

Special contractual clauses:**Special conditions precedent to disbursement:**

- a. The borrower must present evidence that the program's Operating Regulations are in force, in accordance with the terms previously agreed with the Bank. The Operating Regulations will include the program's general participatory planning guidelines together with guidelines corresponding to indigenous communities.
- b. The borrower must present evidence of having hired consultants to carry out the program's concurrent evaluation, under the terms previously agreed with the Bank.

- c. The borrower must present evidence of having hired an independent firm of auditors, acceptable to the Bank, to carry out the program's concurrent audit, in accordance with the terms previously agreed with the Bank.
- d. The borrower is to have presented a report specifying the types, amounts and conditions under which the local contribution made by communities participating in the program can be considered as counterpart funds.

Other conditions:

- a. Annual reviews (see paragraph 3.27).
- b. Concurrent and impact evaluations (see paragraph 3.29).
- c. Special disbursement to initiate program activities (see paragraph 3.23).

Poverty-targeting and social sector classification:

This operation qualifies as a poverty reducing and social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment.

Exceptions to Bank policy:

None.

Procurement:

The procurement of goods and services, construction work, and the hiring of consulting services will be carried out in conformity with standard Bank procedures. International competitive bidding will be required for: (i) construction work costing US\$1 million or more; (ii) the procurement of goods worth US\$250,000 or more, and (iii) the hiring of consulting services costing US\$200,000 or more. Goods, works and consulting services for smaller amounts will be subject to the procedures contained in the annex to the procurement plan; these will be incorporated as Annex D to the loan agreement and are summarized in paragraph 3.18. The executing agency may not award any new works contracts to a contractor group when the value of contracts awarded to that group totals US\$1 million or more, except when the new contract is awarded by public tender.